SCINTREX Annual Report 1975

The design on the cover of this report is a nuclear energy symbol. It reflects the importance to Scintrex of its recent entry into the field of instrumentation for CANDU-type nuclear power plants.

DIRECTORS and OFFICERS

DIRECTORS

Harold O. Seigel
Alfred J. Shaul
William L. Seigel
Gerald Stork
Jon G. Baird
Franc R. Joubin
Harold I. Schiff

OFFICERS

Harold O. Seigel, Ph.D., P.Eng.,
President
Gerald Stork, C.A., P.Eng.,
Vice President and Director of Finance and Administration
Jon G. Baird, B.Sc., P.Eng.,
Vice President and General Manager, Earth Science Division
Valentine Burda, M.Sc.,
Vice President and Director of Engineering
Alfred J. Shaul, Q.C.,
Secretary
Anthony W. Howland-Rose
Vice President

SOLICITOR

Alfred J. Shaul, Q.C.

BANKERS

Bank of Nova Scotia
Marine Midland Bank — Western

AUDITORS

Laventhol & Horwath

TRANSFER AGENT AND REGISTRAR

Guaranty Trust Company of Canada

HEAD OFFICE

222 Snidercroft Road, Concord, Ontario.
L4K 1B5

SUBSIDIARY COMPANIES

SCINTREX SURVEYS LIMITED
Toronto, Ontario, Canada
Harold O. Seigel, *President*
Jon G. Baird, *Vice President and General Manager*
Roger W. Gedde, *Manager, Operations*
Michael J. Lewis, *Manager, Contract Sales*

SCINTREX MINERAL SURVEYS, INC.
Salt Lake City, Utah, U.S.A.
Jack Webster

SCINTREX PTY. LTD.
Sydney, N.S.W., Australia
Anthony W. Howland-Rose, *Managing Director*
Perth, Western Australia
Graham Linford, *General Manager*

SEIGEL ASOCIADOS, S.A. de C.V.
Mexico City, Mexico
Patricio Arcos, *Administrator*

SCINTREX SURVEYS (PTY.) LTD.
Johannesburg, South Africa
Paul R. Bailey, *Manager*

PROGIMINES LIMITEE
Beaconsfield, Quebec, Canada
Mousseau Tremblay, *President*

Report to Shareholders

During the fiscal year ended January 31, 1975, and in the first months of the current year, Scintrex completed the consolidation of the company's organization by directing its resources exclusively into those technical areas which are basically profitable. This process has not been without cost or pain, as the selling and winding up of a division inevitably involves losses on the disposal of inventory and other assets as well as in severance pay and similar non-recurring expenses.

The company's audio division, whose operations were concentrated mainly in Scintrex Inc., Buffalo, New York, incurred substantial losses in recent years. A change of management and a major advertising program instituted early in 1974, resulted in a temporary increase in sales, only to be followed by a sharp reversal during the second half of the year, related largely to the economic recession in the United States.

The decision to divest Scintrex of this division, made about nine months ago, culminated in its sale to Pemcor, Inc., a large U.S. corporation. The sale was closed on July 25, 1975. Prolonged negotiations regarding this transaction, which was material to the affairs of your company, resulted in a delay in preparation and submission of this annual report. Appropriate permission for the delay was sought from and granted by the Toronto Stock Exchange.

The benefits to Scintrex of this divestiture are:

— release from ongoing operating losses of the audio division, which in the past two years alone amounted to $264,000

— release of the capital tied up in the inventory, machinery, plant and land related to the audio operation. The total capital recoverable is in the order of $500,000, of which approximately $200,000 has now been realized from the disposal of inventory and machinery. The remainder should come from the ultimate sale of the land and buildings in Buffalo. Realized funds are being applied to reduce bank borrowings and, consequently, the burden of interest charges

— improvement in working capital, which will result from the sale of the fixed assets of Scintrex Inc.

— concentration of management efforts on ongoing profitable operations.

Financial Statements

A number of factors contributed to the substantial loss incurred by your company in the fiscal year under review. The most important were the operating losses of the audio division and the loss on disposition of discontinued operations, which together amount to $425,000 out of a total pre-tax operating loss of $456,000. This includes provision for a further operating loss in the audio division, up to cessation of operations at the end of July, 1975. The small loss from continuing operations is due to decreased sales in the fourth quarter of the year and to a bad debt of $87,000, an unusual occurrence in your company.

In the earth science division there was no essential change in the volume of sales compared to previous years, although the somewhat stronger first six months were followed by a weak fourth quarter.

Since this report relates in part to the period up to July 31, 1975, it should be read in conjunction with the enclosed financial statements relating to the first six months of the current fiscal year.

The Earth Science Division

During the year geophysical services were provided for clients in Canada, the U.S.A., Mexico, Nicaragua, Fiji, Australia, the Philippines and South Africa. These services were performed on behalf of the United Nations,

governmental agencies and mineral exploration groups.

The Tridem airborne electromagnetic system commenced survey operations late in the season. A number of helicopter-borne electromagnetic surveys, including Turair II and HEM-701, were carried out in several countries.

The level of Australian and Canadian service activities continued to suffer from restrictive governmental policies.

Several changes were made during the year in respect of your company's regional operations. The Vancouver office was closed because of the near extinction of exploration activity in British Columbia, due to provincial governmental measures. A new office was opened in Manila, the Philippines. Existing service outlets were maintained in Sydney and Perth, Australia; Johannesburg, South Africa; Salt Lake City, Utah; and Mexico City, Mexico.

Mr. Roger Gedde, formerly manager of the regional offices in Perth and then Johannesburg, has been made manager, operations, of Scintrex Surveys Limited. Mr. Michael J. Lewis, who headed the Vancouver office, is now manager, contract sales, of Scintrex Surveys Limited. Mr. A. W. Howland-Rose, managing director of Scintrex Pty. Ltd., Australia, was appointed a vice-president of Scintrex Limited.

Research and Development

In 1974 the Tridem system installed in your company's Otter aircraft was made fully operational. It is now working in conjunction with a large-volume gamma ray spectrometer, V.L.F. electromagnetic unit, digital fluxgate magnetometer, analogue and digital data acquisition equipment.

Work continued in the field of magnetic induced polarization, including the production engineering of a number of transmitters and the IPRF-2 frequency domain receiver. Some tests relating to the airborne application of this method were carried out.

The development of the Metalog (neutron-prompt gamma grade-logging) system was brought to a successful completion during the 1974 calendar year. An eminently satisfactory test on a lateritic nickel deposit was carried out with the active support of a major Canadian mining company. Based on the experience gained from this test, the first production prototype Metalog truck was constructed and completed by year end. A copy of an article on this development, which appeared in the January 23, 1975 issue of The Northern Miner, is enclosed for your interest. The Metalog system is now in revenue-producing service on a lateritic nickel deposit owned by the same corporation.

In the field of new geophysical instrumentation a large-volume (1077 cu.in.) gamma ray crystal sensor, the GSA-77, was developed for airborne exploration to be used in conjunction with Scintrex' GAD-5 four-channel digital pulse height analyser. One such system was installed in your company's Otter aircraft and another was sold to a major Canadian aerial survey company.

Engineering work was completed on the multi-frequency SE-77 (Turam-type) ground electromagnetic system and the first production unit was delivered to an overseas customer.

A research and development project was undertaken on behalf of the Defence and Civil Institute of Environmental Medicine, resulting in the production of a successful electronic underwater guidance system for scuba divers. It is expected that further development work on technical extensions of the same project will be undertaken under contract during the current year.

Current Operations

After a relatively slow start earlier in the 1975 calendar year, sales of your

company's geophysical instruments have greatly increased and are now expected to be at least 50% higher than in the previous year. This favourable development is due to an upsurge in uranium exploration, an increase in government-sponsored exploration activities around the world and in Scintrex' improved competitive position in the market.

Having learned from the costly experience of the past four years, your management has concluded that manufacturing activities should be concentrated on scientific instrumentation and, in particular, on devices that can be produced in Scintrex' modern plant in Concord, Ontario.

Late in the last fiscal year the company started to tender on production contracts for a variety of scientific instruments for governmental agencies. To date, Scintrex has been awarded contracts totalling more than $800,000 and further tenders are still outstanding. Such contract instrumentation is outside the earth sciences field and takes your company into new areas of scientific endeavour.

As mentioned earlier, Scintrex developed and built the first prototype of an underwater guidance system for scuba divers. In the field of atmospheric gas monitoring, your company, in conjunction with York University, has undertaken to manufacture a number of nitric oxide analysers for the United States' National Aeronautics and Space Administration (NASA). These devices will be used in high-flying Boeing 747 aircraft.

Of greatest present and, potentially, future importance to Scintrex is the area of monitoring instrumentation for nuclear power plants of the CANDU type (natural uranium-fuelled, heavy water-moderated). Scintrex has been awarded five contracts for four different devices by various Canadian governmental agencies interested in this field. One major device, a Tritium monitor, has already been delivered and Scintrex has been granted a licence by Canadian Patents and Developments Ltd. to manufacture this unit on a commercial basis. The construction in Canada, of a large number of nuclear power plants of the CANDU type, is planned in the near future. In addition, CANDU reactors are being marketed abroad and two plants have recently been sold to Argentina and South Korea.

The electronic, nuclear and mechanical design and manufacturing capabilities of Scintrex put your company in an excellent position to benefit from the future instrumentation requirements for CANDU nuclear reactors, wherever they are located.

The Tridem airborne electromagnetic system, having completed its first year of operation, is now producing satisfactory revenue. Tridem has been fully booked for the current summer survey season by major exploration clients, both private and governmental. The system is gaining industry acceptance and prospects for its increasing use are encouraging. Tridem is expected to produce annual revenue of $300,000-$500,000, starting in the 1975 calendar year.

The Metalog electronic grade-logging system mentioned earlier is now in revenue-producing service. However, much marketing effort will have to be put into acquainting the mining industry with its value before the Metalog can realize its full market potential. An active world-wide campaign is being launched in this respect on the strength of successful tests in lateritic nickel and porphyry copper deposits.

As the enclosed July 31, 1975 statements show, Scintrex' operations in the first half of the current year were profitable. This trend continues with sales and earnings growing at a

gratifying pace. Your company's backlog of instrument sales and geophysical service contracts amount to approximately $1,750,000. Steps are being taken to increase your company's production capacity in line with growing instrument demand.

Judging by orders on hand and the current trend of sales, your directors look forward to a profitable year.

Board of Directors

I am pleased to report that Dr. Harold I. Schiff has joined your company's board of directors. Dr. Schiff, a widely respected physical chemist, is professor of chemistry at York University. He specializes in the field of atmospheric gases and acts as consultant to a number of Canadian and American government agencies interested in this area of research.

This year's increased demands for instrument production has been a great challenge to management and staff. Your directors wish to take this opportunity of expressing the company's thanks to all employees for their past efforts and for their response to the new demands now being made on them.

On behalf of the board of directors,

Harold O. Seigel, Ph.D., P.Eng.,
President

SCINTREX LIMITED

(Incorporated under the laws of Ontario)

Consolidated Balance Sheet — January 31

Assets	**1975**	**1974**
Current:		
Cash	**$ 83,481**	$ 121,560
Accounts receivable	**892,710**	1,041,116
Inventories (Note 2)	**902,667**	970,024
Prepaid expenses and sundry assets	**112,077**	63,387
	1,990,935	2,196,087
Property, plant and equipment (Note 3)	**1,466,712**	1,603,365
Other (Note 4)	**379,994**	429,855
	$3,837,641	$4,229,307

Liabilities		
Current:		
Bank indebtedness (Note 5)	**$ 934,653**	$ 885,213
Accounts payable and accrued liabilities	**642,233**	597,965
Income taxes payable	**6,000**	8,705
Current portion of long-term debt	**75,000**	75,000
	1,657,886	1,566,883
Long-term debt (Note 6)	**384,189**	460,316
Minority interest	**—**	3,991

Shareholders' Equity		
Capital (Note 7)	**1,689,204**	1,688,948
Contributed surplus (Note 8)	**141,677**	79,970
Retained earnings (deficit)	**(35,315)**	429,199
	1,795,566	2,198,117
	$3,837,641	$4,229,307

On behalf of the Board:
HAROLD O. SEIGEL, Director
ALFRED J. SHAUL, Director

See accompanying notes.

Consolidated Statement of Income and Retained Earnings — Year Ended January 31

	1975	1974
Sales	**$3,778,474**	$3,693,869
Cost of sales, including selling and administrative expenses	**3,071,430**	2,877,426
Depreciation and amortization (Notes 3 & 4)	**364,858**	285,017
Research and development expenses	**425,119**	467,341
Interest on long-term debt	**38,289**	35,071
Other interest	**68,665**	53,763
Minority interest	**—**	242
Loss on disposal of fixed assets	**33,352**	26,872
	4,001,713	3,745,732
Less research and development grants	**192,525**	237,093
	3,809,188	3,508,639
Income (loss) from continuing operations before undernoted items	**(30,714)**	185,230
Income taxes (Note 9)	**40,843**	70,352
	71,557	114,878
Losses from discontinued operations (Note 10)	**155,257**	135,542
Loss before extraordinary items	**226,814**	20,664
Extraordinary items:		
Provision for loss on disposition of discontinued operations (Note 10)	**270,000**	65,479
Reduction of income taxes on application of losses of prior years	**(32,300)**	(70,235)
	237,700	(4,756)
Net loss	**464,514**	15,908
Retained earnings, beginning of year	**429,199**	445,107
Retained earnings (deficit), end of year	**$ (35,315)**	$ 429,199
Weighted average common shares outstanding	**884,890**	878,954
Loss per common share (after preferred dividend requirements of $19,650):		
Loss before extraordinary items	**$0.28**	$0.05
Net loss	**$0.55**	$0.04

See accompanying notes.

Consolidated Statement of Changes in Financial Position — Year Ended January 31

	1975	1974
Financial resources were provided by:		
Loss before extraordinary items	**$ 226,814**	$ 20,664
Less items not involving a current outlay of working capital, principally depreciation and amortization and loss on disposal of fixed assets	**350,132**	337,490
Working capital provided from operations, exclusive of extraordinary items	**123,318**	316,826
Reduction of income taxes on application of losses of prior years	**32,300**	70,235
	155,618	387,061
Proceeds from disposition of equipment and other assets	**168,048**	74,230
Government of Canada grants received for equipment	**61,707**	—
Proceeds from issue of common stock	**256**	13,420
	385,629	474,711
Financial resources were used for:		
Additions to equipment and other assets	**335,657**	197,531
Retirement of long-term debt	**76,127**	74,167
Decrease in carrying value of assets applicable to discontinued operations	**270,000**	65,479
	681,784	337,177
Increase (decrease) in working capital	**(296,155)**	137,534
Working capital, beginning of year	**629,204**	491,670
Working capital, end of year	**$ 333,049**	$ 629,204

See accompanying notes.

Auditors' Report

To the Shareholders of
Scintrex Limited.

We have examined the consolidated balance sheet of Scintrex Limited and its subsidiaries as at January 31, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
May 28, 1975 except for Note 10
for which the date is July 25, 1975

LAVENTHOL & HORWATH
Chartered Accountants

Notes to Consolidated Financial Statements — January 31, 1975

1. Summary of significant accounting policies:

Principles of consolidation:

These statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned.

The figures for sales, cost of sales and expenses relating to discontinued operations (see Note 10) have been excluded for the current and prior year. The losses from the discontinued operations are shown separately in the statement of income.

Foreign exchange:

Amounts in foreign currencies have been translated substantially at rates current at year end except for properties and equipment which are at rates prevailing on dates of acquisition.

Inventories:
Inventories are valued at the lower of cost and net realizable value.

Property, plant & equipment:
These assets are carried at cost. Depreciation is provided on the straight-line basis at the rates shown in Note 3.

Other assets:
Commencing with the 1975 fiscal year, the excess of cost of subsidiary over book value on acquisition is being amortized on the straight-line method over 10 years. Patents and processes are being amortized on the straight-line method over 20 years.

2. Inventories:

	1975	1974
Raw materials	$ 319,075	$ 409,060
Work in process	310,446	328,757
Finished goods	273,146	232,207
	$ 902,667	$ 970,024

3. Property, plant and equipment:

	Rates of depreciation	1975	1974
Buildings	5%	$ 599,938	$ 599,938
Equipment	10% to 33⅓%	2,384,668	2,340,496
		2,984,606	2,940,434
Less accumulated depreciation		1,675,727	1,494,902
		1,308,879	1,445,532
Land		157,833	157,833
		$1,466,712	$1,603,365
Depreciation expense for year		$ 317,107	$ 273,016

4. Other assets:

	1975	1974
Patents and processes, at cost less accumulated amortization of $217,449 (1974 — $203,418)	$ 76,513	$ 92,654
Excess of cost of subsidiary over book value on acquisition less amortization of $33,720	303,481	337,201
	$379,994	$429,855
The annual amortization is as follows:		
Patents and processes	$ 14,031	$ 12,001
Excess of cost of subsidiary over book value on acquisition	$ 33,720	—

5. Bank indebtedness:
The bank indebtedness is secured by a floating charge on all the assets of the company.

6. Long-term debt:

	1975	1974
Scintrex Limited:		
Bank debenture, at prime rate plus 1¾%, maturing September 30, 1981, secured by a floating charge on all assets of the company	$337,500	$387,500
Scintrex Inc.:		
7¾% mortgage payable, maturing March 31, 1984	85,023	91,150
Note payable, at prime rate plus 1¼%, maturing November 15, 1976, secured by a floating charge on all the assets of this subsidiary	36,666	56,666
	459,189	535,316
Less amounts due within one year	75,000	75,000
	$384,189	$460,316

The aggregate amount of principal payments required in each of the next five years is estimated as follows:

1976	$75,700
1977	73,166
1978	57,400
1979	58,400
1980	59,400

7. Capital:

Authorized:

350,000 6% cumulative, non-voting, convertible, preference shares, par value $1 each
3,000,000 Common shares, no par value

	Preference		Common		
Issued:	No. of Shares	Par Value	No. of Shares	Consideration	Total Consideration
Outstanding at beginning of year	327,500	$327,500	884,765	$1,361,448	$1,688,948
Issued under employee stock option plan	—	—	250	256	256
Outstanding at end of year	327,500	$327,500	885,015	$1,361,704	$1,689,204

Preference shares:

The preference shares may be converted at any time by the holder or holders thereof into fully-paid common shares (as presently constituted) of the company on the basis of one common for two preference shares. Dividends on these 6% cumulative preference shares are payable semi-annually on the last days of July and January of each year. These shares are non-voting unless the company has failed to pay dividends for a period of two years. As of January 31, 1975 the last seven semi-annual dividends aggregating $68,775 have not been declared and therefore these shares now have voting rights.

8. Contributed surplus:

This arises from grants under the Industrial Research and Development Incentives Act (IRDIA) and the Programme for Advancement of Industrial Technology (PAIT) for capital expenditures incurred for the acquisition of property and equipment.

9. Income taxes:

Income taxes payable for the year are in respect of profits earned by certain subsidiaries.

The company and other subsidiaries have losses in current and prior years amounting to $662,012 which may be used to reduce taxable income in future years as follows:

$ 34,700	to	1977
261,869	to	1978
138,000	to	1979
227,443	to	1980
$662,012		

10. Discontinued operations:

Subsequent to January 31, 1975, the Audio Division was discontinued and the inventories and equipment sold. The operating loss of the Division for the current year and prior year is shown separately in the consolidated statement of income. The estimated loss on the sale of the inventories and equipment is included in the 1975 consolidated income statement as an extraordinary item.

The following is a condensed statement of the Audio operations discontinued:

	Year Ended January 31, 1975	Year Ended January 31, 1974
Sales	$573,872	$447,857
Loss before the following:	$ 67,911	$ 45,065
Depreciation and amortization	21,922	31,647
Interest on long-term debt	13,424	13,668
Other interest	52,000	31,800
Loss before income taxes	155,257	122,180
Income tax recovery:		
Current	—	(7,544)
Deferred	—	(6,286)
Net loss	$155,257	$108,350

In the 1974 fiscal year the company provided for a loss of $65,479 on liquidation of a subsidiary. In 1975 an additional provision in the amount of $50,000 has been made and is shown as an extraordinary item.

11. Lease commitment:

The company and certain subsidiaries have rental commitments in respect of leased premises for periods up to 1984. As the company no longer uses these premises, it has sublet the space for the term of the lease. The commitments and rental recoveries for the next five years are approximately as follows:

1976	$33,390
1977	28,190
1978	28,190
1979	17,250
1980	17,250

12. Remuneration of directors and senior officers:

Total remuneration paid to directors and senior officers amounts to $142,650 for the year ($116,799 in 1974).

13. The 1974 comparative figures have been reclassified to conform with the current year's presentation for the statements of income and retained earnings and changes in financial position.

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Scientific Instrumentation
Research and Exploration

Printed in Canada.

Scintrex Limited
Consolidated Statement of Changes in Financial Position
Six Months Ended July 31

	1975	1974
Financial resources were provided by:		
Profits before extraordinary items	$ 53,248	$ 45,496
Add items not involving a current outlay of working capital, principally depreciation and amortization and gain on disposal of fixed assets	178,557	180,535
Working capital provided from operations, exclusive of extraordinary items	231,805	226,031
Reduction of income taxes on application of losses of prior years	47,000	50,000
	278,805	276,031
Financial resources were used for:		
Net additions to equipment and other assets	35,406	73,482
Retirement of long-term debt	27,467	38,003
	62,873	111,485
Increase in working capital	215,932	164,546
Working capital, beginning of year	333,049	629,203
Working capital, end of year	$ 548,981	$ 793,749

Printed in Canada.

SCINTREX

Interim Report

For the Six Months Ended July 31st, 1975

Report to Shareholders

Protracted negotiations which led to the sale of your company's audio division forced a two months' delay in issuing the annual report. In view of this delay and the availability of Scintrex' six months' results, your management decided to omit the first quarter interim report.

The figures for the year ended January 31, 1975 included a provision for losses of the audio division up to the end of July, when it ceased operations. The current six months results, therefore, reflect only the ongoing operations of your company, with figures for the corresponding period in 1974 having been restated to allow for direct comparison.

The two six-month periods show little apparent change in sales and net earnings, with the present period producing a $100,000 pre-tax profit on $2 million of sales. However, the two years are remarkably different in trend. Current year's operations in contrast to previous year's are accelerating rapidly after a rather slow beginning. For example, the present order backlog exceeds $1,500,000 in instrument sales alone.

The working capital position has improved considerably, increasing by $216,000 to $549,000. To further enhance this position, in August, 1975, a $475,000 mortgage loan was raised on Scintrex' land and plant in Concord, Ontario. The audio division's Buffalo, New York plant situated on 10 acres of land and valued at $350,000 is listed for sale.

With an increase in production to accommodate our rising order backlog for instruments and with the improvement in geophysical survey activity, particularly in Canada, management expects a continuing rise in earnings for the third quarter of the current fiscal year.

Harold O. Seigel, Ph.D., P.Eng.,
President.

September 2, 1975.

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Scintrex Limited
Consolidated Statement of Income
~~Six Months Ended~~ July 31

	1975	1974
Sales	$2,057,473	$1,974,704
Cost of sales, including selling and administrative expenses	1,555,452	1,487,713
Depreciation and amortization	178,557	168,385
Research and development expenses	222,379	247,345
Interest on long-term debt	15,100	20,200
Other interest	45,540	40,699
Minority interest	—	4,500
	2,017,028	1,968,842
Less research and development grants	59,803	123,513
	1,957,225	1,845,329
Income from continuing operations before undernoted items	100,248	129,375
Income taxes	47,000	55,593
	53,248	73,782
Losses from discontinued operations	—	28,286
Profit before extraordinary item	53,248	45,496
Extraordinary item:		
Reduction of income taxes on application of losses of prior years	47,000	50,000
Net profit	$ 100,248	$ 95,496
Number of common shares outstanding	885,015	884,765
Profit per common share (after preferred dividend requirements):		
Profit before extraordinary item	$0.05	$0.04
Net profit	$0.10	$0.10